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* For purposes of the questions listed below, the term network entity refers to the operating entity that controls the network components through which a given service is provided to retail customers. The network entity may, or may not, provide service directly to retail customers. The term retail entity refers to the operating entity that utilizes the network components controlled by the network entity to provide service to retail customers.

* To the extent a commenter has proposed a "most appropriate" structural separation proposal in response to question (II)(B)(6), such commenter should respond to questions (1)-(6) below as they relates to that "most appropriate" proposal.

1. Consumers

- (a) Please explain how the structural separation of Ameritech Illinois into a network entity and a retail entity will impact retail end users in the local exchange market if the network entity is not allowed to retain any retail customers.
- (i) Please explain whether consumers will be required to make a choice regarding an alternative local exchange carrier?
 - (ii) Please explain what will occur if consumers do not choose an alternative local exchange carrier?
 - (iii) Please explain how the structural separation of Ameritech Illinois will impact the prices paid by consumers for local exchange services?
 - (iv) Please explain whether, in an environment where structural separation has occurred, tariffs or price lists will continue to be needed for consumer education?
 - (v) Please discuss whether the structural separation of Ameritech Illinois will cause consumers to be better informed or more confused about the issues associated with local exchange competition?
- (b) Would your response to question (a)(i)-(v) be materially changed by whether or not Ameritech Illinois' network entity were allowed to retain retail customers during a transition period. If so, please explain.

2. Emergency Services

- (a) Please explain how, and the extent to which, the structural separation of Ameritech Illinois into a network entity and a retail entity will impact the following aspects of emergency services if the network entity is not allowed to retain any retail customers:
- (i) The configuration of current 9-1-1 and E9-1-1 systems
 - (ii) The rates assessed for 9-1-1 and E 9-1-1 network components
 - (iii) Current network provisioning and coordination requirements
 - (iv) Maintenance of 9-1-1 and E 9-1-1 network components
 - (v) Database provisioning and coordination activities
 - (vi) Maintenance of 9-1-1 and E 9-1-1 Databases
 - (v) Collection of 9-1-1 and E 9-1-1 Surcharges
- (b) Would your response to question (a)(i)-(v) be materially changed by whether or not Ameritech Illinois' network entity were allowed to retain retail customers during a transition period. If so, please explain.

3. Network Reliability and Development

- (a) Please explain how the structural separation of Ameritech Illinois into a network entity and a retail entity would impact its incentive to maintain, develop, expand and enhance its network on a "non-discriminatory" basis if the network entity is not allowed to retain any retail customers.
- (b) Would your response to question (a) be materially changed by whether or not Ameritech Illinois' network entity were allowed to retain retail customers during a transition period. If so, please explain.

4. Federal Law and Regulations

- (a) Please explain your understanding of the criteria set forth in Section 251(h) for designating a local exchange carrier as an incumbent local exchange carrier.
- (b) Please explain whether the designation of a local exchange carrier as an incumbent local exchange carrier pursuant to Section 251(h) will be driven by:
- (i) Whether or not such carrier provides local exchange service to retail customers.
 - (ii) The carrier's share of the retail market.
- (c) Please explain how the structural separation of Ameritech Illinois into a network entity and a retail entity will impact its current designation as an incumbent LEC pursuant to Section 251(h). Specifically, once structural separation has been effected, will the incumbent LEC designation apply to the network entity, the retail entity, neither or both?

- (d) Is your response to question (c) materially changed by whether or not the network entity is allowed to retain retail end users during a transition period? If so, please explain.
- (e) Is your response to question (c) materially changed by whether or not Ameritech Illinois' retail end users are transferred to the retail entity on the day structural separation has been effected? If so please explain.
- (f) Is your response to question (c) materially changed by whether or not the retail entity owns any facilities? If so, please explain.
- (g) In the event Ameritech Illinois' structurally separated network entity is allowed to retain retail customers during a transition period, please explain how the network entity's designation as an incumbent local exchange carrier will change as it loses market share and another retail provider replaces it as the dominant local exchange carrier.
- (h) If Ameritech Illinois were structurally separated into a network entity and a retail entity whereby the network entity is not allowed to retain any retail customers, how would that impact Ameritech Illinois' current obligations under Sections 251(c) and 252(d) of the Federal Act.
- (i) Would your response to question (h) change if Ameritech Illinois were structurally separated into a network entity and a retail entity, whereby the network entity was allowed to retain retail customers during a transition period? If so, please explain.
- (j) Once the transition period has expired, would there be sufficient facilities based competition to accommodate new entrants' need for unbundled network elements in the event Ameritech Illinois' network entity is no longer obligated to offer such network elements pursuant to Section 251(c)?
- (k) If Ameritech Illinois' network entity were not allowed to retain any retail customers for a transition period and therefore provides no retail services, how would that impact the availability of wholesale services to competing local exchange carriers under Section 251(c)?
- (l) Would your response to question (k) change if Ameritech Illinois' network entity were allowed to retain retail customers during a transition period? If so, please explain.
- (m) Once the transition period has expired, would there be sufficient facilities based competition to accommodate new entrants' need for wholesale services in the event Ameritech Illinois' network entity is no longer obligated to offer wholesale services pursuant to Section 251(c)?

- (n) If Ameritech Illinois' network entity were not allowed to retain any retail customers for a transition period, how would that impact Ameritech Illinois' current obligations to negotiate with competing carriers?
- (o) Would your response to question (n) change if Ameritech Illinois' network entity were allowed to retain retail end users during a transition period? If so, please explain.

5. Illinois Law and Regulations

(a) Illinois Public Utilities Act and Code Part Requirements

- (i) If Ameritech Illinois were structurally separated, how would that impact the definition of its separated entities as telecommunications carriers pursuant to the Illinois Public Utilities Act?
- (ii) How would the structural separation of Ameritech Illinois impact the applicability of the Illinois Public Utilities Act to its network and retail entities. Please address the question from the general perspective of the Illinois Public Utilities Act and from the specific perspective of Sections 13-514 and 13-515.
- (iii) Please explain the application of the 83 Illinois Administrative Rules to the separated entities. Specifically, please address the application of the following Rules to the separated entities:

- 705 (Preservation of Records of Telephone Utilities)
- 710 (Uniform System of Accounts for Telecommunications Carriers)
- 711 (Cost Allocation for Large Local Exchange Carriers)
- 712 (Cost Allocation for Small Local Exchange Carriers)
- 715 (Uniform System of Accounts for Cellular Communications Telephone Utilities)
- 720 (911 Implementation Reports)
- 725 (Standards of Service Applicable to 911 Emergency Standards)
- 730 (Standards of Service for Telephone Utilities)
- 735 (Procedures Governing the Establishment of Credit, Billing, Deposits, Termination of Service and Issuance of Telephone Directories for Telephone Utilities in the State of Illinois)
- 740 (Standards for Customer Provided Inside Wiring)
- 745 (Tariff Filings)
- 750 (Waivers & Modifications Under Section 13-402 of the Public Utilities Act)
- 755 (Telecommunications Access for the Deaf)
- 756 (Dual Party Relay Service)
- 757 (Telephone Assistance Programs) - being addressed in 97-0631
- 760 (Cellular Radio Exclusions)

- 761 (Arbitration Practice)
- 762 (Approval or Rejection of Arbitrated Agreements)
- 763 (Approval of Negotiated Agreements)
- 770 (Operator Service Providers)
- 772 (Pay-Per-Call Services)
- 773 (Presubscription)
- 780 (Right-of-Way Precondemnation Negotiations by Telephone Companies)
- 785 (Joint Rules of the Illinois Commerce Commission, The Office of the State Fire Marshall, and the Illinois Emergency Management Agency: Fire Protection and Emergency Services for Telecommunications Facilities)
- 790 (Interconnection)
- 791 (Cost of Service)
- 792 (Imputation Rules)

- (iv) Would your response to questions (i)-(iii) be materially changed by whether or not the network entity is allowed to retain retail customers during a transition period? If so, please explain.

(b) Alternative Regulation Plan

- (i) Please explain whether, and the extent to which, Ameritech Illinois' Alternative Regulation Plan would continue to play a role in the regulation of the separated entities.
- (ii) If your response to question (i) is positive, please indicate to which separated entities the Alternative Regulation Plan would continue to be relevant.
- (iii) Would your response to question (ii) be materially changed by whether or not the network entity were allowed to retain customers during a transition period? If so, please explain.

6. Financial Issues

- (a) Would the network entity be less risky than Ameritech Illinois?
- (b) If the response to question (a) is positive, would it be necessary to estimate a new rate of return for establishing the rates of the network entity?
- (c) If the response to question (b) is positive, how should the network entity's cost of capital and common equity be calculated?
- (d) How would the riskiness of the network entity be evaluated?

- (e) Would assets transferred to the network and retail entities be valued at book or market? If market, how would market value be determined?
- (f) The following questions refer to securities issuances for the resulting separated entities.
 - (f-1) Would the network and retail entities issue common stock to the public or other telecommunications service providers?
 - (f-2) If the response to question (f-1) is positive, what proportion of common stock will be issued to the public or other telecommunications retail service providers?
 - (f-3) Would the network and retail entities issue debt securities?
 - (f-4) Would the holding company issue common stock or debt securities on behalf of the network or retail entities?
 - (f-5) What capital structures would be targeted for the network and retail entities and why?
- (g) The following questions refer to the relationship among the resulting separated entities (the network and retail entities) as well as their holding company, as it pertains to potential liabilities from each separated entity's outstanding debt obligations.
 - (g-1) What are the implications for the network entity of a default on the payment of principal and interest by the retail entity or holding company? Please explain the rationale for your response.
 - (g-2) What are the implications for retail entity of a default on the payment of principal and interest by the network entity or holding company? Please explain the rationale for your response.
 - (g-3) What are the implications for the holding company of a default on the payment of principal and interest by its retail or network subsidiaries? Please explain the rationale for your response.
- (h) Describe the advantages and disadvantages of partial ownership of the network and retail entities by the public or other telecommunications retail service providers (hereafter "minority ownership").
- (i) What fiduciary responsibilities would a network or retail entity have to its minority common stock holders?
- (j) The following questions explore the incentives available to the separated entities to provide favorable service to each other as opposed to other non-affiliated entities. Discuss the incentives the network entity would have with regard to providing more favorable service to the retail entity versus other competing retailers under the following scenarios:
 - (j-1) Assuming there is minority ownership of the retail entity;

- (j-2) Assuming there is minority ownership of the network entity but not the retail entity.
- (k) Would your response to questions (a)-(j) be impacted by whether or not Ameritech Illinois' network entity was allowed to retain retail customers during a transition period. If so, please explain.

D. LCI Petition

The purpose of this section is to seek comment on various aspects of the LCI Proposal regarding the structural separation of Ameritech Illinois into a network entity and a retail entity.

- (1) The LCI proposal states that the network entity only be allowed to offer access services to interexchange carriers in connection with its embedded customer base.
- (a) Please explain which entity would be allowed to offer access services to the network entity's wholesale customers.
 - (b) To the extent the network entity's wholesale customers are successful in generating additional demand from retail customers, including demand for second lines, please indicate which entity would provide access services to the interexchange carriers offering services serving those retail customers.
- (2) The LCI proposal states that the retail rates and exchange access services of the retail entity would be regulated like those of any other competitive carrier. Please explain whether this proposal would be impacted by whether or not the retail entity is the only alternative carrier to the network entity in a given market.
- (3) The LCI proposal states that the network entity should be allowed to continue serving the existing BOC's local customer base, but should not be allowed to add customers (including those customers that move to new locations).
- (a) In the event the BOC's network entity and retail entity are the only two companies in the local market, what incentive would the retail entity have to charge reasonable rates for its services?
 - (b) In the event the event a competing carrier obtains, via slamming, a network entity's customer, will the network entity be allowed to reacquire that retail customer?
- (4) The LCI Proposal states that the network entity's retail tariffs are frozen such that the network entity is not allowed to introduce new services or modify its retail rates.

- (a) Please explain how that would impact Ameritech Illinois' current Price Cap mechanism as it applies to retail customers. Specifically, how would that impact the network entity's:
 - (i) Ability to seek exogenous factor treatment for costs outside its control.
 - (ii) Incentive to maintain service quality to retail customers.
 - (iii) Ability to reflect productivity gains in provisioning service to retail end users.
 - (iv) Incentive to build out its network.
 - (b) How would the tariff freeze impact the Commission's ability to investigate Ameritech Illinois' earnings levels to verify that the Company is not overearning?
 - (c) How would that impact the network entity's ability to rebalance its retail rates to more efficient levels?
 - (d) How would that impact the competitive position of resellers who purchase Ameritech Illinois' (now limited) retail services on a wholesale basis compared with facilities based new entrants using their own facilities or Ameritech Illinois' network elements (with no limitation of the types of services that can be provided using those network elements)?
- (5) LCI alleges that its Proposal would encourage competition for residential customers. At the same time, it specifies that Ameritech Illinois' retail rates would be frozen at current levels. Please explain how the tariff freeze would impact the ability of facilities based new entrants, or new entrants purchasing unbundled network elements, to attract the network entity's retail customers if retail rates are frozen at inefficient levels?
- (6) The LCI Proposal discusses the status of the retail entity as an incumbent local exchange carrier under Section 251(h) of the Federal Act. Specifically, LCI asks the FCC to declare that any BOC adopting its proposed corporate structure may offer local exchange service through its retail affiliate without concern about being classified as an incumbent local exchange carrier under Section 251(h). LCI further asks the FCC to declare that the retail entity is not a "successor" or "assign" of the BOC and that the retail entity does not occupy a comparable position in the local exchange market.
- (a) Under what authority would the FCC make such declarations?
 - (b) In the event the BOC's retail entity is successful in gaining a majority share of the retail market, would the network entity continue to be designated an incumbent local exchange carrier pursuant to Section 251(h) or would it be replaced by the retail entity?

III. SCHEDULE

Initial comments will be due May 15, 1998. Reply comments will be due June 12, 1998. The original and three copies of all comments need to be filed with the Chief Clerk., Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois 62794-9280. Please send a printed copy of your comments to Stacy Buecker, Telecommunications Division (Phone: 217-524-4228; Fax: 217-782-1377). Also, please send Stacy a copy of your comments on a 3.5" computer diskette formatted in an IBM compatible form using MS DOS 5.0 and Microsoft Word 6.0-7.0 software. The diskettes should be submitted in "read only" mode, and should be clearly labeled with the party's name, proceeding, type of pleading (comments or reply comments) and date of submission. The diskettes should be accompanied by a cover letter. Unless otherwise requested by the commenting party, files received will be uploaded to the Commission's internet site.

To assist the Commission's staff in expeditiously compiling an accurate official service list, we direct all parties who wish to participate in this proceeding to file Notice of Intent with the Chief Clerk by May 1, 1998, via letter.

Oral presentations to the Commission will be conducted as follows:

July 17, 1998	Chicago
July 24, 1998	Springfield

The exact time and location of the oral presentations will be posted on the Commission's internet site in early June. When sending your reply comments, please indicate whether you intend to participate in the oral presentations to the Commission and the amount of time needed. Also, please indicate how many people from your organization will participate in the oral presentation.

The NOI manager may adjust these dates, may develop agendas for the oral presentations, and may schedule workshops as deemed necessary to facilitate the process of gathering information. At the close of this process, the NOI manager may, if it is deemed necessary, commence a second phase of the proceeding to solicit further information.

The Executive Director has designated the NOI Manager for this proceeding to be Patrick McLarney, Manager - Telecommunications Division. Stacy Buecker is the NOI Assistant Manager.

Should you have any questions or comments regarding this matter, please contact Stacy Buecker at 217-524-4228 or Patrick McLarney at 217-524-5060.